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ABSTRACT

This paper discusses the recent implementation in England of school improvement reforms based on school choice and in particular on a system of school-based management whereby total financial control is vested in individual schools. The first section briefly describes the financial structure of the English educational system, followed by an examination of the historical development of site-based management. The central government's progress toward implementing the 1988 Education Reform Act is then outlined. The local management of schools initiative (LMS) introduces five related factors: formula funding, delegated finance, staffing delegation, open enrollment, and performance indicators. Advantages of LMS include the ability to meet local needs, quick response time, and capacity for multiyear planning. Constraints include time, sophisticated management information systems, and training needs. A conclusion is that the educational system has changed from local education agency (LEA) control over input and school autonomy in outputs to a system in which schools control input and resources, and a centrally determined curriculum and performance indicators prescribe the process and output. Thus, the schools will be forced by the market to improve performance, creating a direct relationship between the quality of education and employment. As a market mechanism, LMS strategy provides the best needs assessment and market-determined rewards and sanctions. Three figures are included. (39 references) (LMI)

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CHANGING FINANCIAL PROVISION LEADS TO A RADICAL REFORM OF THE ENGLISH EDUCATION SYSTEM

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Currently the British Government is implementing a wide range of linked initiatives by which it means to alter the fundamental nature of the English education system. The intention is that school improvement will be achieved through the introduction of choice and, in particular, through school site management. Although this article focuses on the distribution of finance, it also looks at other interrelated, aspects of these initiatives. It considers the new dynamic effect on the education system of a legally enforced, country-wide implementation of the broad concept of Local Management of Schools (LMS) which is a system of school site management where total financial control is vested at the individual school level. Another parallel development is the establishment of a National Curriculum for all schools.

In order to set this major initiative in context, the first section will briefly describe the structure of finance in the English education system. Then the writers move on to an examination of the historical development of delegated systems of school finance (school site management). This leads to an outline of central government's increasing interest in this area, culminating in the 1988 Education Reform Act. The significance at school level of the LMS proposals is discussed and, finally, key signals for success in this initiative are highlighted.

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THE FINANCE OF EDUCATION IN ENGLAND

Traditionally, state provision of services, including education, is a function of both central and local government. Nationally, education policy is determined by elected Members of Parliament and carried out through officials at the Department of Education and Science (DES). At the local level, the education service is administered by the Local Education Authorities (LEAs) which are like the city-wide school boards in the USA. Local Education Authorities are a subordinate committee or structure of a particular local government area, e.g. Birmingham, Manchester or country areas like Cambridgeshire or Cheshire. Each one of these local government areas sets up its own Education Committee to run the LEA. At this level, local politicians can also introduce policies so long as they do not contravene national legislation. Each school has an elected governing body comprising representatives of parents, staff, local business and local politicians. The day-to-day control of the school is vested in the Headteacher who has an educational, rather than administrative, background. The significant difference between the American and the English system is that the central government has total power and can both give to LEAs and take away from them educational responsibilities and functions. There are no checks and balances as pertain in a federal system such as the United States.

The existing system of financial distribution to schools is outlined in Figure 1.

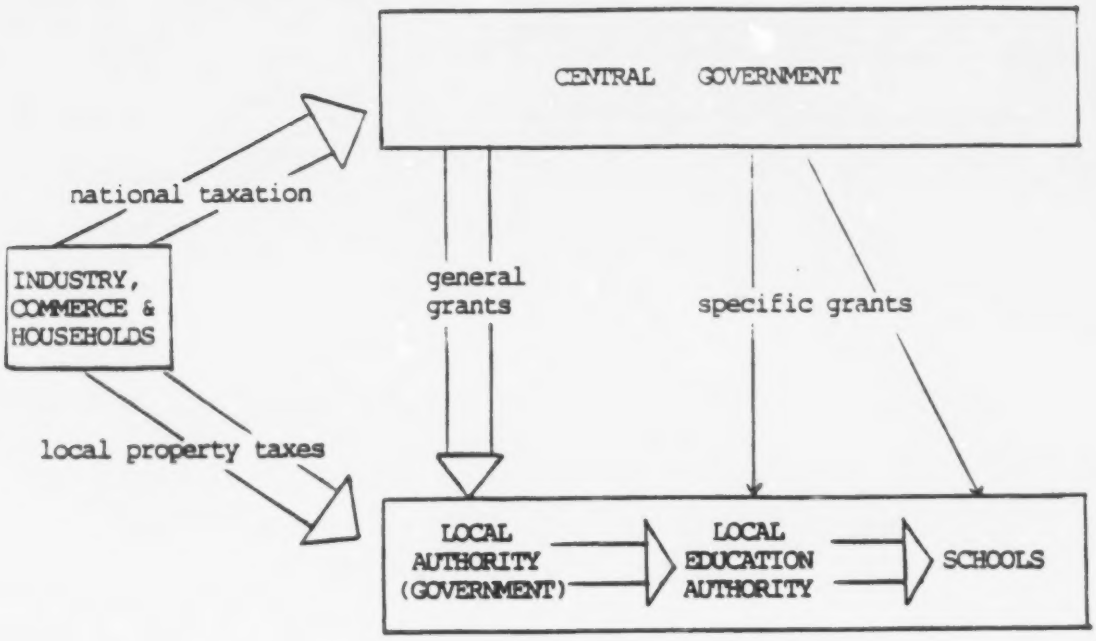


Figure 1

Local government income derives from property taxes (rates) and from central government's general support grants with a small amount coming direct from the government through the DES. The significance of this is that, once received, both money from central government and locally raised finance are under the total control of local government. Individual LEAs have been free to decide the means by which funds are allocated to each educational institution and the degree of control which is exerted over the institution's spending. In most cases money has been allocated to specific budget headings and, although there has been some discretion,

schools have had virtually no control over the type of spending available to them. In most schools, the main area of freedom for the Head and governors has been the capitation allowance (for books and small equipment) which is allocated to the school on the basis of pupil roll. However, this represents only about 5% of the total cost of educating each pupil.

Such close control of funds has meant that the LEAs have been the chief determinants of the spending pattern rather than the individual institutions being able to decide on spending according to their own perceived requirements.

This traditional pattern of control has faced two significant challenges. The first is an evolving one resulting from several LEAs having introduced a variety of pilot schemes for delegated school finance. The second, more radical, development has been the legislation embodied in the 1988 Education Reform Act which puts forward the concept of LMS, a package of initiatives giving far greater powers to governors of schools with the aim of school improvement. The evolution of delegated systems of school finance will be examined in the next section while the vast implications of LMS for English schools will be discussed later in this article.

THE HISTORICAL DEVELOPMENT OF DELEGATED FINANCE IN ENGLAND

Although a limited attempt had been made much earlier by Hertfordshire, most commentators see the development of devolved financial control as a phenomenon of the 1970's and 1980's starting with the Inner London Education Authority (ILEA) in the early 1970's.

The Alternative Use of Resources (AUR) Scheme which was introduced by the ILEA, was based on three main aims:

> "(a) to provide ILEA with a means for exercising positive discrimination between schools according to their special needs;
>
> (b) to enable schools to play a major part in determining for themselves how best to deploy the resources at their disposal and to involve heads, with their staffs, in the process of decision-making; and
>
> (c) to provide schools with the opportunity to plan ahead the ways in which major resources may be allocated to achieve particular developments within the school's organisation and curriculum."
> (ILEA School Sub Committee Report 6.5.82)

Under the scheme schools were allocated a basic establishment, which they could not reduce, for teaching and non-teaching staff. In addition the schools received two sums of money: (i) a school allowance (capitation allowance) determined by numbers on roll and (ii) 'additional resources' which was partly determined by numbers on roll but adjusted by a 'needs' formula to discriminate positively in favour of particular schools. This latter factor is unique to the ILEA and has not been used by other LEAs which have developed schemes. The school can use these two sums of money

to purchase extra teaching (with some limitations) and non-teaching staff, materials and equipment and minor building works according to the needs it decides to prioritize.

The aims of the ILEA scheme and the thinking behind the Hertfordshire scheme have a basic difference compared with later schemes in the early 1980's. This is very clearly articulated by Hudson (1984):

> "It is probably right to see a difference, at least of emphasis, in the objectives of the four recent schemes compared with the two earlier ones. The promoters of all the schemes clearly believed that there would be advantages in giving wider discretion to the heads of schools; but in Hertfordshire and the ILEA the advantage was seen to lie in enhancing the capability of the schools to function as educational institutions, while the more recent schemes put greater stress on the aim of securing cost effectiveness through greater managerial efficiency. Both objectives are legitimate, and they are not necessarily incompatible; the difference lies in which is given primacy."

Part of this change in emphasis can be attributed to the constrained financial framework of the 1980's and the cutbacks in educational spending.

After the inception of the early schemes interest in school delegation gathered pace in the late 1970's and especially in the 1980's. While it is not proposed to examine every scheme in turn, it is valuable to reflect on the developments in three LEAs and at central government level which have highlighted the dimensions of this change. Methods of introduction

have varied; for example, in a review of the situation, the Audit Commission Report (1984) commented:

> "153. The study revealed examples of strategies for delegation which may be categorised as: gradual evolution across all or most schools; sudden change across a small pilot group of schools; and gradual evolution across a small pilot group of schools."
>
> "154. Experience so far suggests that authorities which have approached greater delegation by evolution rather than by sudden and swift introduction have experienced fewer problems and appear to have achieved a more acceptable pattern for all parties concerned."

The three LEAs which are to be considered here in what might be called the second phase of the development of delegation are Cheshire, Cambridgeshire and Solihull. They have been chosen to illustrate different patterns of philosophy and implementation as reflected in the above quotation.

The Cheshire scheme almost forms a bridge between the earlier and later cost centre developments. Cheshire started a 'capitation plus' scheme in two pilot districts in 1976 (out of a then eight district structure for the county). After modifications and developments the scheme was extended to other districts so that, since 1984/5, all the county's secondary schools (age 11 to 16 and 11 to 18) have been operating the scheme (see Davies 1986). This includes control of capitation, furniture and fittings, office expenses, postage and telephones, cleaning equipment and materials, staff travelling and subsistence and limited virement of salaries of staff who leave at Easter. A fuel incentive scheme also functions in those schools which choose to operate it. An extension of the scheme in 1988/89 has brought in teaching and non-teaching staff and examination fees in a pilot group of ten schools.

Cheshire has chosen a path of evolutionary change with the initial pilot districts being extended to a county-wide scheme. This approach was replicated when expansion was considered in 1988/89 with the pilot schools leading the way before full introduction. In terms of the Audit Commission's categories, it is adopting gradual evolution first to pilot schools and then to all schools.

Cambridgeshire, on the other hand, has followed a policy of almost total devolution to a group of six secondary schools and one primary school (age 5 to 11) in a pilot scheme which started in 1982. Two key factors influenced the five years of the pilot scheme. Firstly, school budgets in general were based on adjusted historical costs and secondly, all the Heads operating the scheme were volunteers. Also the amount of support offered by the LEA officers was extensive as there were few schools for them to manage. This led to enthusiastic Heads using the scheme creatively to vire funds to more appropriate uses. However, the move to extend the scheme to all schools in 1987/8 ran into several problems which were reported in the national press (see for example, 'The Independent' 16.5.87). The central issue was one of the formula for determining school budgets. The proposal to allocate cost centre money on a per capita basis caused strong opposition because of the varying cost structures of schools. A comprehensive school which has an 8 form entry of 240 pupils per year and one which has a 4 form entry of 120 still have to bear some of the same fixed costs but the latter does not gain the same economies of scale. This illustrates a key problem in the extension of 'cost centres'.

While an historic cost basis may be suitable for allocating resources to a small pilot group, using the basis over all schools merely replicates previous spending habits, good or bad. The alternative approach of a simple formula would seem too unsophisticated to deal with the varying cost structures of secondary schools. This transition from a 'good idea' with a limited number of schools to a 'practical reality' with a large number is the major policy development problem for LEAs.

The Solihull scheme was based, initially, on a pilot study of three institutions, a 6th Form College (11-18), a secondary school and a primary school. It involved very extensive delegation, similar in parts to the Cambridgeshire scheme except that it had much wider property maintenance delegation. The scheme ran experimentally from 1981-1984, becoming permanent from 1984 onwards. Schools are free to 'opt in' and an increasing number have done so. The significant factor reflected in the Solihull scheme, which highlights the earlier point by Hudson, lies in the motives of the politicians for introducing it. Initially, it was proposed that the LEA should take a deduction of 2% of school budgets as its share of savings and that further savings should accrue to schools. This was perceived by the schools as using cost centres as a mechanism for imposing cuts on the education service. Negotiations between politicians, education officers and teachers replaced this proposal with a 'value for money' principle where any additional costs borne by the centre would be taken out of school budgets (for example, an autonomy accountant was appointed) but any savings would be free to be used by schools across their expenditure areas. The net effect of this is a small service charge

to schools which reduces as more schools opt into the scheme. However, the Solihull example does highlight the suspicion in teachers' minds as to whether cost centres are about saving money or delegating control.

The last few years have seen a number of LEAs involved in developing delegated forms of finance, but these three do accurately reflect the nature and dimensions of existing schemes of implementation.

THE DEVELOPMENT OF CENTRAL GOVERNMENT POLICY FOR DELEGATED FINANCE (SCHOOL SITE DELEGATION)

These attempts by LEAs to increase school control of finances have attracted growing central government interest and support leading to initiatives in this area. Central government policy towards local government finance resulted in the setting up in 1982 of the Audit Commission. This was established as an independent body designed to monitor all aspects of local authority expenditure and to encourage greater economy, efficiency and effectiveness. Its first report and publication in this field in 1984 was 'Obtaining Better Value in Education: Aspects of Non-teaching Costs in Secondary Schools' (Audit Commission 1984). This supported the idea of delegating financial responsibility towards schools and suggested that Heads could be responsible for 25% of a school's expenditure instead of the more common 5% represented by capitation expenditure. However, it also stressed that,

for successful implementation, the method and speed of introduction was as important as the nature of the scheme.

> "the Commission considers that more delegation of authority and responsibility to the local level will result in better value for money and avoidance of waste, provided (the proviso is crucial) that the ground is prepared properly in advance."
> (Audit Commission 1984)

This was supported in the 1986 Audit Commission Report 'Towards Better Management of Secondary Education' (Audit Commission 1986) which also went further to suggest that, within the constraints of the relevant Education Acts and nationally agreed terms and conditions of service,:

> "In theory there may be no limit to the authority of the head to shift resources as seems appropriate to provide the best service to pupils with the funds available."
> (Audit Commission 1986)

This view was reflected in a number of government statements typified by Bob Dunn, Junior Minister for Education, in September 1986 (DES press release 248/86)

> "Our view is that financial management responsibility should be delegated as closely as possible to the point of delivery. To repeat what the Secretary of State said to the Council of Local Education Authorities in July, we want decisions to be taken at the rim of the wheel rather than the hub."

This policy development resulted in two Conservative party election manifesto proposals in the 1987 campaign. The party proposed, firstly, to legislate to give larger schools the power to control their budgets, including staffing, and secondly, to allow some schools to 'opt out' of their LEAs and be completely independent of local political control by running their own budgets with a grant from central government.

Following its election success in June 1987 the new Conservative Government published "Financial Delegation to Schools: Consultation Paper" (DES July 1987). The consultation paper stated the government's two main objectives in introducing financial delegation:

> "(a) to ensure that parents and the community know on what basis the available resources are distributed in their area and how much is being spent on each school;
>
> (b) to give the governors of all county and voluntary, and of larger primary schools, freedom to take expenditure decisions which match their own priorities, and the guarantee that their own school will benefit if they achieve efficiency savings." (Consultation Paper, July 1987)

Under those proposals all schools in the primary sector (elementary schools) with 200 pupils or more and all secondary schools (high schools) would come under the scope of the legislation and LEAs would be required to submit plans to the DES for approval by September 1989. Full implementation to all such schools would have to take place by April 1993. This consultation paper was followed in the Autumn of 1987 by the publication of the 'Education Reform Bill' which went through Parliament in July 1988 and became the 1988 Education Reform Act. To provide more detailed guidance to LEAs a draft consultative document "Education Reform Act: Financial Delegation to Schools" was published and sent to LEAs in April 1988 and a very detailed circular (7/88) followed in September 1988. These two publications drew heavily on the recommendations of the independent Coopers and Lybrand Report which the DES had commissioned in May 1987 and which looked at three LEAs, highlighting key strategies for the successful implementation of financial delegation.

The key elements of the documents can be summarized in five points:

(i) By September 1989 LEAs were required to have submitted plans for delegated financial control to the DES for the Secretary of State's approval and full implementation to all the schools involved would be achieved by April 1993 at the latest. This is one more example of centralizing local authority control to the DES.

(ii) Delegation is to the governing bodies of schools who may in turn delegate responsibility to the Headteacher but formally it is the governors of the school who are responsible for the budget. Interestingly, although governors may hire and fire staff, it is the LEA which retains legal contract responsibilities.

(iii) Starting in April 1989 the LEA is required to publish details of the budget for each school in its various categories so that parents are aware of the costs of education at that school.

(iv) While the LEA must retain funds to cover major capital works, central administration, advisory services and legal and medical services, it may also, at its discretion and within certain limits, retain funds for such areas as handicapped children, peripatetic and advisory teachers, structural repairs and maintenance, contingencies, etc. (although it can delegate these). The rest of the money must be allocated to the schools by a formula so that in a typical LEA about two thirds of funds will be

allocated directly to schools and one third retained centrally. As shown in Figure 2, in most authorities this will represent a very significant shift in (spending) power from the LEA to the schools.

Present position in many LEAs

Future position in a typical LEA

The shaded area is the proportion of a school's total budget managed by head and governors.

Figure 2

(v) Distribution of resources to schools should be on the basis of a clearly articulated formula rather than on an historical cost basis. This is to introduce a zero-based philosophy of resource allocation. At least seventy five per cent of the funds allocated directly to schools should be determined by the number of pupils, weighted by age, thus considerably reducing the LEA's discretion to discriminate in favour of certain schools as against others. Even those schools which do not receive delegated powers will be funded according to this formula so that their resources will be largely roll-related.

THE SIGNIFICANCE OF THE NEW SYSTEM

The Education Reform Act embodies much new legislation appertaining to schools' resource inputs, management, curriculum content and performance evaluation. It is the most far reaching attempt since 1944 to make major alterations to the state system and many commentators believe that it will far exceed the 1944 Act as its consequences are felt. The Act gives many powers (including the general power to change aspects of the legislation) to the Secretary of State for Education (an M.P. of the political party in control at Westminster).

Unlike the North American experience, where financial power is delegated to the Head/Principal, under pilot schemes of delegated finance in England and under the new government legislation, financial power is delegated to the governors of the school. Governing bodies will also have the right to appoint and dismiss staff, a responsibility previously reserved for the LEA. The 1986 Education Act reorganised governing bodies from September 1988 giving greater representation to parents and people from local industry and commerce with less representation to local political groups.

The thinking behind delegation to governors is that it will enhance the involvement of parents and the wider community so that they work with teachers and the LEA to improve the quality of education, providing an education which the 'consumers' want. Whether this works out in practice remains to be seen.

The introduction of LMS means that the LEA's role will change to a more strategic one in that it will be setting policy and parameters but leaving detailed implementation to the schools, yet still monitoring performance. The government's view is that LEAs will have a vital overall responsibility for ensuring that schemes of delegation are effective in delivering better education.

The government sees the LEA as having key responsibilities in that it will:

> determine the total resources available to schools;
>
> decide the scope of delegation within the framework of the Act;
>
> establish the basis for allocating resources to individual schools;
>
> set out the conditions and requirements within which governing bodies must operate;
>
> monitor the performance of schools and give advice to take corrective action if necessary; and
>
> operate sanctions, including withdrawal of delegation, if required. (Circular 7/88 September 1988 - Local Management of Schools)

There has, thus, been a polarization of power at the central and institutional levels with subsequent loss of power at the local government level (where, in the past, political intervention may not have mirrored the policies of the party in control nationally).

In terms of the LMS initiative, the Act introduces five interlinked concepts:

1. Formula funding
2. Delegated finance
3. Staffing delegation
4. Open enrolment
5. Performance indicators

The nature and significance of each will be described, alongside an attempt to highlight their interrelationships and the implications for school improvement.

1. Formula Funding

All schools within the scheme, (basically state funded mainstream schools catering for any of the 5 to 18 age range), will be entitled to a share of the LEA's education budget (after certain permitted deductions for central expenses) according to a formula devised by the LEA and approved by the Secretary of State. The formula must be largely related to the numbers on roll and weighted according to the pupils' ages. However, up to 25% of the formula-based funding in an LEA can take account of other factors such as floor area, conditions of buildings, and social deprivation in the district.

Although there are limited transitional arrangements, the introduction of formula funding will mean that there will be winners and losers in terms of schools and their budgets. The losers argue that the formula is unfair and that some particular aspects of it discriminate against their schools. The chief area of concern is over the way in which staff salaries are being funded. For example, previously, a school may have been given forty teachers whereas under the new system money will be put in the formula to fund the staffing according to the average cost of a teacher. As teachers earn more as they move up the salary scales and gain promotion, the cost structure of an individual school's staffing may be significantly different to the LEA average. Research undertaken by Davies (1989) suggests that two identical 1000 pupil secondary schools will have significantly different staffing structures. School 'A' with younger teachers will gain £45,000 as the formula will give it the average cost of a teacher and not the actual, lower cost, while school 'B' with a higher age profile will be £30,000 short on its budget by being over the average salary cost. As a teacher costs approximately £15,000, it can be seen that one school gains three staff while one loses two, a staffing difference of five for the same sized school. This means that in future schools may not be appointing teachers 'per se' but seeing what they can buy as teachers at the start of their careers cost £10,000 while they cost £17,000 at the end.

Because formula funding will be applied to all schools from 1990, it will not be possible for LEAs to give any extra financial support to particular schools. However, very small schools (under 10 staff) can

receive some support through the formula to compensate partially for their above average unit costs.

As explained below, the government has included the concept of open enrolment (complete parental choice of school for their children) in the Act so that LEAs cannot artificially hold down the roll at a certain school in order to protect a less popular one. As an immediate consequence of the legislation there has been a marked increase in awareness of school promotion strategies in order to generate a 'good image' and to attract pupils.

2. Delegated Finance

After funds for central LEA use have been set aside and the application of the formula has determined the budget share for each school, it is a legal requirement that certain schools receive a delegated budget with total powers of virement. The schools which must have this facility are:

all secondary schools (11-16 & 11-18)
all middle schools for 9-13 year olds *
all primary schools with over 200 pupils (including any nursery children)
all middle schools for 8-12 year olds with over 200 pupils *

(* only exist in a minority of authorities)

LEAs may, if they wish, delegate budgets to the smaller primary schools. While some authorities are likely to do this, many appear to be leaving this form of extension for a few years. Hackett (1987) cautions against any hasty extension of financial delegation to small schools:

> "An inspection of a primary school in Cambridgeshire reported that while local budgeting had brought benefits . . . we should have considerable concern about the pressures on headteachers, particularly less experienced heads or those with substantial class or teaching responsibilities.'"

It is not envisaged that most authorities will give schools the actual funds in a bank account or even a limited cheque book, but that all bills will be passed to the LEA's finance division for payment.

In addition to its budget share, the school will have the following resources at its disposal:

- Educational Support Grants (i.e. grants to fund central government's perceived priorities) - which come from the DES via the LEA, are tied to specific uses and cannot be vired;

- centrally retained services of the LEA - administration and advisory services and such other provision as the LEA decides to centralize e.g. outdoor pursuits centre, peripatetic music or special needs staff;

- income - from lettings, parental fund raising etc.

Although the delegated powers are vested in the school's governing body rather than in the Headteacher, it is expected that there will be very close cooperation and consultation before expenditure patterns are finalised. Governing bodies are being encouraged to take out insurance to cover themselves should they be found negligent in their handling of the budget and, in many LEAs, authority-wide cover is being negotiated. Because of the operation of the formula, there will be no possibility of a 'handout' for a school which cannot cope on its budget share. Should the governors be unable to manage the budget, the LEA has the power to intervene and remove their delegated powers.

The concept of delegated financial control in the central factor in full LMS. The theory is that it allows those closest to the school to see its needs and determine priorities. Once these needs have been prioritized, the budgetary process can focus on meeting them in the most appropriate way. Thus, the organisation can determine spending according to localized perceptions whereas, in the past, the more remotely sited LEA decided on most areas and levels of expenditure.

Having planned their annual budgets, governing bodies will have full powers of virement during the year. The school will be able to transfer money from one budget head to another, thus being able to respond quickly to changing circumstances. Each LEA is free to decide on its policy for the carrying forward of underspending at the end of the financial year. In many LEAs this will be the first opportunity which schools have had to take a longer term view of their spending plans.

Each school will have freedom to acquire supplies and services from any source rather than, as at present, being constrained by LEA central purchasing arrangements. Schools should be able to deal with companies which can best meet their needs and, thus, obtain good value for money. However, there could be some loss of economy of scale which was possible because of the strength of purchasing power of the LEA.

Most LEAs plan to maintain some support services which will be freely available to schools e.g. peripatetic music teachers, outdoor pursuits centres. A potential for future development is the delegation of further funds so that schools will be charged according to their use of these services.

Alongside their plans for financial delegation, most LEAs are heeding the advice of the Coopers and Lybrand Report on the introduction of computerized Management Information Systems (M.I.S.) linking schools to the LEA finance division.

As well as the mechanics of the distribution mechanism, each LEA has to decide on the phasing in of its scheme, which must be fully operational by April 1993. As has been the case in earlier delegation schemes, it is likely that approaches will vary, although there is not much time for a very gradual phased introduction.

3. Staffing Delegation

Currently, staff are allocated to schools by the LEA regardless of the cost in terms of the salary point which a teacher may have reached. There is also a framework within which posts of responsibility (allowances) are allocated in schools, larger schools having a greater number of promoted staff. At present, staff are employees of the LEA so that, if there is overstaffing in a school, surplus staff are offered an alternative post in another school.

Under LMS the governors will hire and fire staff (subject to employment protection legislation), deciding on the numbers of teaching and non-teaching staff to be employed. This will be determined by the amount available in the school budget. Schools should benefit from greater flexibility in making appointments to suit the curriculum but surplus teachers will have no opportunity for automatic redeployment. Many people feel that governing bodies may wish to appoint relatively inexperienced teachers as these will be lower down the incremental scale and, hence, cheaper to employ.

When calculating the formula-funded element of a school's budget share, the LEA will apply its teacher:pupil ratio but schools will not always be able to recruit to this ratio (as was explained earlier) because their costs may not be the same as the average. The governors can decide whether to staff the school at, above or below the authority's figure. There is a fear that, because salaries take up about eighty per cent of

the school's budget, governors will try to economise in this area by employing fewer teachers. However, evidence from earlier initiatives in England suggests that most schools choose to spend more, rather than less, on staffing.

The delegated funds will usually include an element to pay for supply cover in the event of short-term absence and it will be for schools to decide how to use this money. It would be possible for a school to decide that staff would cover for absent colleagues so that the money could be vired to other expenditure headings.

4. Open Enrolment

The basic principle underlying the concept of open enrolment is that parents, as consumers, should have as great a choice as is possible over the schools at which their children are educated. Over the last few years there has been a decline in the birth rate so that most schools have experienced falling student enrolments. Some LEAs have enforced quota systems on schools in order to even out the numbers artificially and avoid politically sensitive decisions on closure. This has meant that successful schools have often been prevented from recruiting freely. The Education Reform Act introduces regulations to prevent LEAs from controlling intakes, thus widening parental choice. Each school will be able to recruit up to its 1979 roll (the year when schools tended to be at their fullest) unless this was abnormal in some way e.g. the school has

expanded or lost buildings since then. The philosophy behind this legislation is the idea of the free market economy in which successful schools will recruit and flourish while unsuccessful ones will flounder. Because schools will be funded on a formula which is largely based on pupil numbers, the effect of rising rolls will be to improve the facilities available for pupil use. Contracting schools will find it more difficult to meet their costs so that staffing and, hence, the curriculum, will suffer. As a result, these schools will probably lose even more pupils and will be on the downward spiral towards closure.

When choosing a school, parents will be concerned about the 'output' of the school, particularly the performance of the pupils in the various curricular areas. Thus, the concept of open enrolment is linked to another aspect of the 1988 Act, the publication of performance indicators.

5. Performance Indicators

If Local Management of Schools is to operate successfully, it will be necessary to monitor the performance of each school. Alongside the financial audit to ensure that funds have not been misappropriated, there will be three ways in which effectiveness will be measured:

i) the LEA advisers/inspectors will have an enhanced role in that they will use their professional judgement to monitor subjectively a school's performance on an occasional basis or if a problem arises;

ii) there will be an objective and comprehensive system (preferably computerized) of measuring performance indicators at regular intervals within a school;

iii) an annual report will be produced for each school, describing and explaining its performance.

It is not expected that these performance indicators will be limited to pupil attainment but that they will cover such diverse factors as 'staff demeanour', management delegation and pupil truancy.

The government hopes that the combination of a national curriculum (enforced through another section of the Education Reform Act) and performance measurement will enable 'consumers' to judge which schools are the most suited to providing the standard of education which they require for their children.

KEY SIGNALS TO OUTLINE SUCCESSFUL CHANGE IN MANAGEMENT IN SCHOOLS

It is now proposed to draw from the literature on delegated finance experiences to date in order to clarify the issues which are emerging and to highlight the key signals for the successful country-wide implementation of LMS. While a great deal of this literature concerns the experiences of Cambridgeshire and Solihull and the authors have been involved with the Cheshire scheme (Davies and Ellison 1987), there has

also been wider research in this field. Attention will focus, in particular, on the following key areas:

1. The resource distribution mechanism i.e. the formula
2. Management approaches and skills
3. Management Information Systems and administrative support
4. Training
5. The Results of Delegated Financial Control

A summary of the most significant points will be given at the end.

1. The Resource Distribution Mechanism

The distribution of resources to schools in early pilot schemes was on an historical cost basis i.e. the LEA used the existing budget base and adjusted it for minor changes in the following year. This incremental approach provided certainty and stability in planning whilst allowing the LEA to fund separately fixed costs of buildings and variable costs of pupil-led expenses like staffing. It also meant that staff salaries were allocated on actual costs and not average salary costs (a point developed elsewhere).

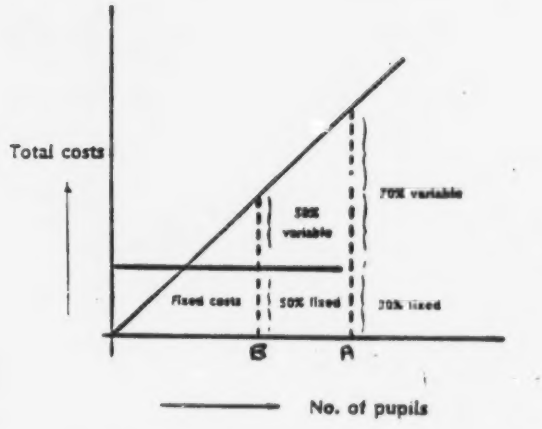
The critics of historical costing argue that it merely reinforces past spending patterns and mistakes and does not force schools to re-appraise what they are doing. The move, both in current schemes such as Cambridgeshire and Solihull and under the 1988 Act, is towards resources being distributed by a roll-related formula.

The problem with a formula based solely on pupil numbers, as Knight (1988) suggests, is that:

> ". . . the role of fixed costs in LFM formulae . . . could be devastating. A school with falling rolls would be crucified while one with rising rolls would flourish."

As rolls fall, fixed costs such as rates and telephone rentals remain steady and must still be met, despite the drop in income resulting from the application of a roll-related formula. There is a consequent drop in the amount of money available to meet variable costs such as the provision of materials for pupil use. This phenomenon is illustrated by the following diagram:

Formula based on pupil Nos. only.



What happens with open enrolments :

- rewards expanding schools
- punishes declining schools

Figure 3

If pupil numbers fall from the optimum roll 'A' to the new level 'B', the school which was devoting 70 per cent of its resources to variable costs such as teachers and instructional materials now can only devote 50 per cent of its resources to these as it is having to use its revenue on fixed costs. This is likely to mean fewer teachers and bigger classes with reduced provision in terms of books and materials so that results and school reputation begin to suffer. The school is then on a downward spiral because it has a poor reputation in the neighbourhood.

Conversely, a school with rising rolls, having covered its fixed costs, has a greater pool of resources to spend on pupils' books and materials. This can result in a prestigious profile in the local community, thus generating further pupils and further roll-related resources.

Harrison (1987), in commenting on the Solihull scheme, laments:

> "Contrary to the Government's apparent wish for a fairly simple (possibly weighted) formula for budget allocation Solihull uses a different formula for each budgetary item: building maintenance is based on capital value of the school; fuel on historical consumption and current unit cost; grounds maintenance on acreage; and staffing on pupil numbers - weighted in the social priority areas in the north of the borough."

This sophisticated profile of formula may not survive the government's requirements for simplicity and clarity. On completion of its five year pilot scheme in 1987 Cambridgeshire ran into problems about moving away from historical cost to formula-based funding. Faced with the choice between a curriculum-led model called 'Organization-Based Staffing' (which funded the schools according to their curricular needs and thus

compensated smaller schools) or a pupil number based scheme called 'Age-Weighed Pupil Numbers', the Council opted for the latter because it was simpler and cheaper. As reported in the 'Education' editorial on 15 May 1987:

> "Jackie Strong, Head of Bassingbourn, which with 420 pupils has less than half the pupils that the smallest school in the pilot had, said 'The formula would give me a reduction in funding which would make it very difficult for me to deliver the curriculum I want to. The curriculum could suffer.'"

Again in an editorial in 'Education' 9 October 1987:

> "The chosen formula works like the old Burnham points scheme . . . there is a special allowance for small schools . . . Even so about half the schools will receive less under this formula than they would have expected under the previous budget allocation system."

A further complication with the government's framework is that schools will be given staffing funds based on the average cost of a teacher but will be charged the actual cost of the staff in the school. This means that schools with older staff who are at the top end of the incremental salary scales will have inadequate finance while schools with a younger age profile will gain finance.

The Audit Commission (1988) compares two schools with a similar number of pupils which might employ 30 staff each. It calculates that one with relatively inexperienced teachers could pay £377,610 in salaries; the other with a more experienced staff might pay £426,180. Nichol (1988) suggests that this problem is particularly acute with primary schools and:

> ". . . predicts that their financial difficulties will increase, ultimately causing many of them to close down"

Wootton (1988) believes that this will lead to teacher sackings as governors will not be able to afford to retain all their staff.

Thus, the distribution mechanism can be seen to be a critical issue as schools move away from incremental historical budgets to formula-based ones which force them to take a zero-based view of which resources to employ.

2. Management Approaches and Skills

The successful implementation of LMS requires that the senior management team develops a 'whole school' approach to the concept. This approach can be considered in the following key areas:

i) goal setting
ii) decision-making structures (internal and external)
iii) budgeting and technical skills

The annual budgetary cycle starts, not with resource allocation, but with the clarification of aims and objectives. Because of the resource implications of the roll-related formula, this may require a school to decide on the special nature of its 'service' in order to attract 'clients'. Evidence from earlier initiatives confirms the importance of goal-setting as a starting point. Humphrey (1988) states:

> "In the schools currently in the scheme (Solihull) it is evident that most Heads have clear views about their aims and have ideas about translating these into decisions about the allocation of resources."

Thus, it seems that in Solihull the managers are setting objectives and obtaining resources to match them. Burgess (1986), reporting about the Cambridgeshire pilot scheme, found:

> "All the Heads have found themselves able to make financial responsibility serve their educational objectives; they have become better educational managers."

Therefore, an initial key factor is that schools should have clear aims and objectives if resource provision is going to be harnessed to meet those needs.

A second key issue is the management of effective decision-making within the school. Davies (1987) sees:

> "Participation in decision-making is also an important area to consider . . . If one applies this delegated argument within the school, should middle management and the classroom teacher be involved in determining spending because they are closer to the children and thus perceive their needs on a day to day basis."

Humphrey and Thomas (1983), reporting on the Solihull scheme state:

> "Staff participation through a structure of four committees has characterised the approach to autonomy of the secondary school."

Thompson and Watson (1987) in summarising the Coopers and Lybrand Report, put forward the view that:

> "Greater delegated powers means that decision making in the school takes on greater importance. The issues under this heading concern the role of the governing body in the decision making process, the desirability of some form of management 'team' within the school."

It is interesting to note that, in the above, it is participation in decision-making which is being advocated, rather than just consultation which has often characterized the decision-making model in the past. This may necessitate a change in the leadership philosophy of the Head. It will also be important to develop opportunities to involve governors in partnership with the school staff although the creation of an unwieldy meetings programme should be avoided.

The organisation of effective decision making structures with appropriate levels of participation emerges as a management task to be undertaken.

A third area is the development of technical skills in understanding and interpreting budgets. The Coopers and Lybrand Report (1988) states:

> "Each school will then be faced with the task of planning its operations to achieve educational objectives within the constraints of the cash limits . . . budgets developed at this stage should contain proposals with estimated costs for curriculum and extra-curricular costs and other expenses."

Schools will be increasingly involved in choosing between competing resource demands and will need an understanding of such concepts as fixed and variable costs and opportunity costs in order to make realistic decisions. Management theory suggests that those closest to the clients are best able to make efficient choices on resource allocation. These assumptions are challenged by Thomas (1987) who draws attention to a lack of expertise at the school level. In particular he suggests that Heads may not know the best method of combining resources, especially when production requirements and relative prices fluctuate. An example of this

could be the difficulty of determining the optimum ratio of pupils to teachers to non-teaching assistants. This fear is echoed by Burkhead (1973):

> "... in elementary and secondary education there is no reason to assume that a school principal .... has knowledge of or interest in the marginal productivity of resource inputs. Even if these were known, it could not be assumed that it would be possible to secure least-cost combinations, given the institutional rigidities of mandates and conventional practice."

3. Management Information Systems and Administrative Support

The nature of administrative support in terms of an effective management information system (M.I.S.) together with adequate administrative staffing is a key issue that emerges from the literature.

James (1988), as the County Councillor who was instrumental in setting up the Cambridgeshire Schemes and as a governor making decisions in one of the pilot schools, states:

> ". . . that it is quite clear that an LFM scheme cannot work if the central computer cannot produce the detailed management information for the schools, and also the monitoring information required to control the whole system, to ensure that the members have an overall policy control."

Similarly, Knight (1983) had reported:

> "A sound data base is essential. Any Authority, before embarking on a financial autonomy scheme, must be sure that the data for schools concerned is completely accurate, and extensive. It is significant that in Solihull progress was restricted in the first year because of time spent building up and verifying data."

Esp (1988), in evaluating moves in delegation in Lincolnshire, sees one of the aspects of success as:

> ". . . the provision of effective computer hardware and software for school administration."

Schools will need to monitor spending throughout the year so as to facilitate the effective use of funds and well informed virement. In order to do this there will need to be a thoroughly integrated and complex system of computerized M.I.S. linking the schools with the LEA finance division. Although many LEAs are attempting to set up systems before introducing delegated budgets, there will be many problems because the system is delayed or cannot provide for the sophisticated management needs which evolve as delegated finance is extended. In the short-term there will be attempts to use existing systems which do not always provide accurate, up-to-date information.

It is inevitable that an extensive system of delegation will result in a greater input of time at the school level. Stenner (1988) reports that:

> "There were also costs associated with bringing LFM into the school. Those related almost entirely to the time given to it in the first year. Everyone gave extra hours to discussing, learning about and reviewing the scheme . . ."

The management decisions will fall on teaching staff at various levels in the organisation but there are only limited needs for their involvement in the administration of the system. The administrative tasks can be efficiently executed by a registrar/bursar, possibly with other clerical assistance. Some LEAs have built this post into their formula

calculations although it will be at the school's discretion as to whether or not the money is used in this way.

In both the cases of Solihull and of Cambridgeshire the LEA has not provided any extra finance to fund additional clerical support. However, a number of schools in both these LEAs have used 'savings' in some areas of the budget to hire additional clerical staff to run the scheme (see for example Humphrey 1988).

Reports in this area indicate that there are certain prerequisites for success. Firstly, LEA financial information has to be disaggregated and provided to individual schools in an efficient, comprehensible, accurate and reliable way so that management decisions can be taken on correct information. Secondly, extra support staff time is needed to cope with the administration and often this has to be paid for by savings elsewhere. Similarly, management time must be created in order to ensure that the delegated powers are used to the best educational advantage.

4. Training

As indicated throughout this article, LMS involves the participants at the school level in a much wider range of functions than has hitherto been the case.

Most commentators see the success of delegation of financial control as being dependent on the adequate training of Heads, staff and governors in

their new roles and responsibilities. The earlier schemes of Cambridgeshire and Solihull have proceeded by 'trial and error', which has not produced the disasters that opponents would think, mainly because a few pilot schools can receive significant informal support from the LEA, a facility that is not feasible on large scale implementation.

The Head and staff of a school will have to build up very good working relationships with the governors so that the needs of the school are reflected by the decisions which the governors make. One particular area of concern is that governors may recommend the appointment of less experienced staff or reduce the overall number of staff in the school in order to finance other projects.

While the increased power of the governors has, in itself, significant training implications, these are further emphasised by the fact that many governors are newly elected and have a very limited knowledge of the workings of the education system. Many schools have already begun to hold 'workshop' sessions for governors on such areas as the curriculum and pastoral care. The government has provided grants so that LEAs can set up a governors' training programme relating specifically to the implications of the 1988 Act.

As an effective scheme for training Heads and staff, Davies (1988) puts forward a systematic and comprehensive training programme in three stages for LEAs to implement. These stages involve (i) an initial familiarisation with the nature and dimensions of the change (ii) a

detailed development of management strategies and skills to manage delegated finance and (iii) technical Management Information System (M.I.S.) skills and team building. As well as the need to develop specific skills, attitudes must change and a 'whole school' approach to LMS should be adopted. This is in contrast to the rather fragmented structure of separate committees for finance, staffing and the curriculum which many schools are expecting to have; these are interlinked and interdependent systems.

Staff and governors will also need to be aware of the image which they promote, both deliberately and unconsciously, in the surrounding area. Yet another facet of the school's relationship with its environment is the need to develop income generation skills in order to boost the resource input and further facilitate effective and 'desirable' education.

Those LEAs which have operated some form of budgetary delegation are in a stronger position in that there are some of the necessary skills at both the school and the LEA levels. Other authorities have a long way to go before implementation can be successfully managed and they are likely to delay this until 1993, with the possibility of running some pilot schemes or gradual phasing in the interim.

It is important to draw on past experiences regarding implementation. These have highlighted the problems of inadequate training and information.

5. The Results of Delegated Financial Control

It is apparent that a number of changes take place in the roles of the participants in the Education Service who are involved in delegated finance, and there are a number of functional processes (such as M.I.S.) that need to be perfected, but what are the benefits and failures of the experience to date?

Humphrey & Thomas (1983) reported:

> "One important feature which is difficult to measure is the fillip that autonomy has given to heads and staff of the schools concerned. There has been great generation of interest, a fresh look at their approach to work and, . . . the principal of the sixth form college has spoken of autonomy as including '. . . a greater sense of control . . . more freedom to act quickly . . . greater awareness of financial parameters.' However, he has also been concerned about its effect on the rest of his work and his role as an educator. This concern about opportunity costs of autonomy has also been an issue in the secondary school where the committee structure absorbs much teacher time."

Harrison (1987) in interviewing Heads in Solihull, came up with a number of significant responses:

> "So what's in it for schools? Jane Hewlett, Head of Alderbrook Comprehensive School which has been in the scheme since 1985 says, 'Better decisions about the school are made by the people in it. They are the best people to judge.' She also says she is getting better value for money, 'we are able to order from the people who give us the best service . . . for example our grounds are now maintained more frequently to a higher standard and at a lower cost than the LEA service provided us with.'"

She quotes further examples from Heads:

> "George Kirkpatrick Head of Dorridge Junior School reports 'You can plan ahead; there is a flexibility to it that generates the feeling that if you want to change something you can; and that makes you want to look at areas of the curriculum. Without a doubt, it is improving the quality of education for children in my school.'"

This Head of a junior school has appointed extra part-time staff and bought extra resources out of savings.

Humphrey (1988) reports considerable virement in Solihull by schools. Hill (1988), on reviewing the Cambridgeshire experience, highlights seven tentative conclusions from that Authority's experience:

> "1. After passing through a period of anxiety, the participants are pleased with their experience.
>
> 2. Headteachers report greater job satisfaction and welcome the additional responsibility.
>
> 3. Governors feel that they can become involved with their schools.
>
> 4. Teaching staffs have increased morale due to more resources becoming available.
>
> 5. Pupils take more care of their environment and respond academically.
>
> 6. A spirit of initiative is encouraged, increasing the will to work.
>
> 7. Decisions are made and jobs done more quickly, leading to savings in time and energy."

Hill is reported in 'Education' (9 October 1987) as saying that:

> "None of the seven pilot schools have tried to make savings in staffing. They have given priority to (1) teachers, (2) support staff and (3) books and equipment, in that order."

As discussed in an earlier section, Hackett (1987) has some concern about the effects on primary schools. He also drew attention to the lack of empirical research concerning the educational benefits of delegated finance.

Thus, experience to date suggests that pilot schemes have shown benefits which overcome some of the costs involved in running them. However, when assimilating these enthusiastic comments, it must be remembered that most of these Heads were willing volunteers who entered the pilot schemes with positive attitudes towards delegation. As reported by Tagg (1986), many other Heads have cautioned against school-based budgeting. Typical of these is Heywood (1986) who sees the danger of delegation as diverting Heads away from being effective educationalists to becoming managers of finance.

SUMMARY

The British government has legislated for the delegation of budgets and associated powers to the governing bodies of many English schools by 1993. The experience to date demonstrates the very significant advantages of delegation:

i) schools will be able to meet perceived local needs;

ii) there will be the ability to respond quickly to changed circumstances;

iii) when planning, a multi-year time horizon will be possible.

These should combine to give a more efficient and effective school while, at the same time, facilitating greater staff involvement and motivation.

Nevertheless, existing schemes highlight the problems which must be reconciled if these ideals are to be achieved. These include:

i) a need to look at the time implications for the management and administration of the system;

ii) the need for sophisticated management information systems;

iii) the need to respond to training needs at all levels, in terms of both attitude development and skill enhancement.

CONCLUSION

In diagrammatic form the traditional economic production model of

INPUT ⟶ **PROCESS** ⟶ **OUTPUT**

in the education system in England has been changed from one in which LEAs decided inputs but schools were free to organise the teaching process and the outputs (without the testing system which predominates in American schools) to the exact reverse. Now schools have control of the inputs in terms of resources but the process is laid down by the national curriculum and the output by centrally determined performance indicators.

Thus, when the five interlinked factors (discussed from page 17 to 26) are in full operation, schools will be forced by the market to improve their performance. If a school achieves high performance indicator ratings and

the parents see that these indicators are valid then it will retain existing pupils and attract additional ones. With these pupils comes funding which the school is free to spend as it likes in order to make itself even more attractive. The converse is that a school which does not improve and produce results acceptable to parents will lose pupils and, hence, funding so that teachers will have to be 'sacked' to keep the budget in line with reduced funding. It is the school itself which will have to make these hard decisions. Thus, it is intended by the government that teachers should see a direct relationship between the quality of education which they provide and their own employment prospects. LMS is seen as a market mechanism for improving schools as they will be forced to relate parental choice, funding and educational performance in a very direct way in a 'quality equation'. It has a two-pronged strategy. Firstly, vastly enhanced school level control of financial resources should enable educators to determine the best mix of resources to deliver quality education and, secondly, the market will provide rewards or punishments for schools according to whether or not they achieve adequate performance.

As such, LMS takes on concepts current in the American experience such as 'choice', 'delegation', 'autonomy' and 'school site management' and puts them in a revolutionary model. Whether we have seen the market-led future of education and whether it works will be the focus of a second article in four or five years' time!

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